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Evolution and Change in the Serviced Office Sector: A Decade Later

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Abstract

With particular reference to its role in the corporate real estate supply chain, this paper focuses on how the serviced office sector in the UK has evolved and changed over the last decade. A qualitative research approach involving 21 semi-structured interviews with corporate clients of serviced office operators was used to address a number of issues regarding the perceptions of users of serviced offices. It is concluded that the serviced office sector has become an established sector of the UK's commercial real estate market providing an essential product for many corporate organisations. The serviced office sector has been relatively nimble and a range of operational models have emerged. It was found that corporate organisations use serviced office space and services in order to align workforce change with portfolio change, to transfer risk, for short-term project space, as temporary overflow space, to pilot a new location, to become familiar with a specific geographical marketplace or simply to gain an initial presence in an area.

Introduction

Conversations with market participants suggest that the serviced office sector has changed significantly over the last decade. A new breed of intermediary has emerged, the product range has expanded and the sector is continuing to consolidate. Whilst practitioners who are close to the market often have a great deal of personal knowledge about the nature of the sector, there has been very little published analysis. Whilst market monitoring has improved considerably with regular data on pricing and occupation levels, the purpose of this research is to try to fill some of the gaps. With particular reference to its role in the corporate real estate supply chain, this paper focuses on how the serviced office sector in the UK has evolved and changed over the last decade.

Following rapid growth in the 1990s, the serviced office sector generated a body of research from academics and market participants at the end of that decade (for example, see Gibson and Lizieri, 1999; Gibson and Lizieri, 2000; McAllister, 2001 and Harris, 2001). However, whilst the serviced office sector has continued to evolve, this body of knowledge was not built upon. In addition to the increasing complexity of corporate organisations, a number of additional factors are likely to have changed corporate demand for office and meeting space including the interaction of improved communications technology, business cycle volatility, changing working practices and corporate re-structuring. Further, the increasing importance of health and safety regulation and risk management processes within corporate organisations has meant that they often need to use quality assured providers for 'outsourced' business premises.

The extent to which the different business product lines (core serviced office and meeting venues) complement each other has not been addressed. Approaches to structuring delivery have been evolving cautiously. Inevitably, they will continue to evolve as the relationships between these business strands develop. Clearly, optimal configuration will be driven by the nature of demand from corporate organisations and the ways in which they structure

their 'buying centre' for the procurement of the range of products and services that the serviced office sector offers.

The remainder of the paper is organised as follows. Building upon previous research, we discuss of the evolution of the serviced office sector and the product range over the last decade. After a brief discussion of the methodological approach, the paper reports on the results of semi-structured interviews with corporate users of serviced offices. Finally, conclusions are drawn.

The Serviced Office Sector

The diversity of the serviced office product range with its multiplicity of names has led to confusion over what a serviced office comprises. In this paper, a broad definition will be taken. A serviced office is defined as space within a building that is let, sub-let or licensed to third parties on a serviced basis. The services will tend to comprise all of the building services and a menu of business support services. It is umbrella term that includes managed offices, office business centres, serviced venues and virtual offices.

The first half of the 1990s was a particularly transformative period in the evolution of the landlord and tenant relationship in the UK. Driven largely by the competitive pressures generated by recession, globalisation, technological change and deregulation, there were significant shifts in business practices. Downsizing, de-layering, de-merging, flexible specialisation, re-engineering, outsourcing, core competency etc. were business buzzwords that were associated with changing real estate requirements of many office occupiers. In turn, more flexible lease terms, the expansion of the serviced office sector and corporate real estate outsourcing reflected a significant increase in the range of occupational solutions for businesses.

Although the serviced office concept had been around for decades, until the late 1980s the sector tended to be extremely fragmented and localised. Winter (1989), in the first reference to serviced offices in the property

literature, described the sector's emergence and discussed the appearance of a small number of national operators (Regus, MWB, HQ) during the 1980s.

At the beginning of this century, the supply of serviced office was broadly segmented into two categories. There were only four to five national (two or three had international capacity) providers (over 10 centres) whose main market was generally major corporations. The remainder largely comprised small-scale, niche providers who were regional in scope and who generally served local markets and SMEs (see Gibson and Lizieri, 1999 and Billingham, 1999).

The rapid growth and (in 1998-2000) high profit margins of the serviced office sector induced a small number of mainstream property owners to try to move closer to the service end of the space-service continuum. In the first years of this century, a number of them argued that their business tenants constituted an easily accessible market with whom they had pre-existing business relationships and to whom they had the capacity to market a range of services. At the time mainstream property owners such as Arlington, Land Securities (through Landflex) and Brixton Estates (through BServ) experimented with the revenue enhancing opportunities associated with the provision of property-related services, new technology or office infrastructure and made efforts to capture some of the market for flexible, managed office workspace from serviced office operators.

For many of the support services, the main method of market entry was often perceived to be through partnership with third party providers. The main business opportunities were identified as facilities management, relocation and fit-out services, procurement of some non-property goods and services, e-procurement capabilities and broadband. However, their experience over the last decade suggests that providing flexible occupational solutions to businesses with a range of property and office support services is not a complementary product for them. The failure of mainstream property owners to secure a foothold in this market sector suggests that they have not been able to compete on price and quality with specialist providers.

In terms of the recent evolution of the serviced office sector, linked to the wider economy, the story of the last decade has largely been one of volatility. The economic downturn associated with the bursting of the interlinked 'dot-com' and stock market bubbles in 2000-2001 produced an abrupt decrease in demand and produced sharp falls in revenues for serviced office operators. The often high levels of operational (with fixed liabilities and variable revenues) and financial gearing led to a 'shake-out' in the sector with a number of operators becoming insolvent, some mergers and restructuring. Following this sector shake-out, there has been a pattern of recovery, boom, another bust and another recovery since the initial 'dot-com' bust.

One of the main changes that can be observed in the serviced office sector in the last decade has been the growth of specialist intermediaries. Companies such as Instant Offices, Flexi Offices and Easy Offices have become important intermediaries between occupiers and operators. Indeed, the dividing line between providers and brokers can become blurred. Similar types of intermediaries are also prevalent in the venues market. However, it is notable that it involves a completely different set of intermediaries. Finally, since this was not self-evident at the end of the 1990s, it is worth stating that the serviced office sector is now undoubtedly an established component of the office market.

The sector remains relatively diverse and fragmented. In terms of supply, operators vary in terms of their scale and scope. Only two operators (MWB and Regus) are publicly listed companies and there are variations in terms of the number and quality of premises and support services. On the demand side, the main distinction seems to be between a few large operators who have a blend of corporate and SME clients and smaller operators whose main market is almost exclusively SMEs. The sheer diversity of the market makes it difficult to generalise about the sector. In private research reports, it has been stated that serviced offices account for around 2-4% of the office market. It was estimated that there were 174,000 workstations in the UK in 2006 with Regus and MWB accounting for approximately 25-30% of the market. This

compares to a seemingly much higher market penetration in the US (reported at approximately 15%) and much lower levels in major EU markets.

Probably, the most robust research on the motivations for using the serviced office market was carried out by Gibson and Lizieri in 2000-2001 (see Gibson and Lizieri, 2001). They pointed to the different segments of demand and supply within a set of overlapping markets. Broadly, they found that the main users of serviced offices are small teams of less than five people. For serviced office operators catering to the corporate market, the limited body of later (private) research remains broadly consistent with Lizieri and Gibson's initial work. It suggests that the main rationale of their clients for using serviced offices revolved around the ability to rapidly procure (and dispose of) high quality premises in good locations in a comprehensively managed office environment with the ability to access other additional services as required.

The body of research suggests that corporate organisations mainly used serviced offices for risky functions with uncertain timeframes. This could involve gaining an initial presence in new geographical markets or starting-up ventures involving new products or services. At the other end of the scale, the serviced office product was attractive to SMEs who could benefit from the economies of scale that serviced office operators obtain in terms of unit costs reductions in leasing space, office equipment and the provision of the range of services e.g. receptionist, photocopying etc.

The venues and meetings segment of the serviced office sector has been largely ignored in the previous literature. As we discuss in more detail below, this neglect may represent a further reflection the segmentation of the two product lines (serviced workspace and off-site space for meetings and venues). Although speculative, we would suggest that real estate researchers focussed on the potential of serviced offices to provide real estate solutions to workspace provision and have shown little interest in specialist areas such as training environments or hospitality events.

Serviced offices is probably too limited a term to describe the product range of contemporary serviced office operators. In terms of how they present themselves to the market, most operators have configured their product offer into three main categories - serviced offices, meeting and conference facilities and virtual offices. Like most businesses, due to ongoing inter-related changes in technological, business practices and market conditions, the serviced office sector has been, and is being, challenged to evolve as customer demands and new opportunities are presented.

Perhaps emphasising the diversity of the sector's product range, the main competition to the serviced office sector seems to come from two main sources. For workspace, the main competitors are conventional office landlords. However, for the meeting venues business, as discussed above the main competition is from the corporate hospitality sector, which also supplies off-site space for training and other events.

The core serviced office offer has involved the bundling of flexibility of occupation, utilities, property taxes liabilities, office infrastructure and 'hard' and 'soft' FM services into a single price. The 'bundle' is outlined in Table 1. In addition, customers are provided with options to use additional facilities and services (e.g. catering, meeting rooms). The serviced office/venues business model is supplying premises with associated office infrastructure and support services for variable, but typically short, time periods. Fundamental to the business model is the conversion of fixed to variable costs and risk transfer.

The core competencies of serviced office and venues suppliers seem to coalesce around:-

1. Business to business (B2B) supply of office space, equipment and telecommunications on (near) pay as you go (PAYG) terms,
2. B2B supply of hard and soft FM services on (near) PAYG and
3. B2B supply of venues for off-site business events.

They all require a blend of competencies, skills and knowledge focussed on sales and marketing, service provision, real estate management, procurement, contract management and ICT. One key competitive advantage compared to conventional leasing is that the search costs that businesses may incur in procuring office equipment and FM services are reduced with the logistical benefits of a 'one-stop shop'. Initial set-up costs are low compared to the costs of fitting-out, equipping an office etc 'from scratch'. In addition, the ability to enter and exit rapidly and to expand and contract rapidly effectively decreases inventory risk.

Table 1: Typical Costs Bundled Into the Serviced Office Price¹

	Entry	Operation	Exit
Office fit-out	Yes		
Legal fees ²	Yes		
Brokerage fees	Yes		
Office equipment	Yes		
Survey fees	Yes		
Business rates		Yes	
Maintenance		Yes	
Repairs		Yes	
Upgrades		Yes	
Cleaning		Yes	
Insurance		Yes	
Health and Safety		Yes	
ICT		Yes	
Reception		Yes	
Utilities		Yes	
Hot and cold drinks		Yes	
Security		Yes	
Dilapidations		Yes	Yes
Search costs of above	Low	Low	Low
Monitoring costs of above	Low	Low	Low

1 There are plenty of anecdotes of serviced office occupiers being surprised at unexpected charges for “extras” such as reprographics, signage, parking etc.

2 Brokerage and legal fees can account for approximately 10-15% of the contracted charge. Where a serviced office is procured through a broker, the broker is typically paid by the SOO. The brokerage fee paid by the SOO is approximately 10% of the value of the contract. Since these fees are part of the cost base of the SOO, they are transmitted indirectly to the occupier.

At first sight, the venues segment of the business seems fundamentally to be a more intense version of the serviced office business. Venues for conferences, meetings, training etc are typically hired on an hourly or daily basis with IT support and catering. The demand (and revenue from) for off-site venues tends to be more volatile than for the workspace element. Revenue streams tend to be more seasonal. For instance, August and December tend to have lower occupancy rates. As noted above, the main competitor to the venues component of serviced office operators is the hospitality rather than the conventional real estate sector. Companies such as De Vere, ETC, Principal Hayley and corporate hotel chains are the main competitors.

The fact that all the major office operators offer a venues-type product (albeit to varying extents) suggests that it is complementary to the serviced office operation. However, in discussion one major provider estimated that their current serviced office occupiers account for approximately 20-30% of their client base with the remainder generated externally. Moreover, in order to be competitive in the corporate market to supply off-site venues, quality of venue and catering tend to be particularly important and for the venues business a relatively small proportion of the serviced office premises generate a large majority of the revenue stream. This is probably related to the enhanced importance of quality of space in the venues market.

There is anecdotal evidence that a number of serviced office occupiers have also entered the office services outsourcing market. This may have started opportunistically as business tenants in the same buildings as service office operators made agreements allowing them to dispose of excess space and to outsource FM offices services. In addition, a number of serviced office operators are able to provide a services-only product.

Another emergent product is managed offices or back-to-back leases. This involves the serviced office operator (SOO) taking a lease of office space from a conventional landlord on conventional lease terms. The space may have been identified by the occupier or may have been identified on behalf of the

occupier by the serviced office operator or a intermediary. The space is fitted out and furnished by the serviced office operator and sublet to the occupier for a term similar to the head-lease for a charge that bundles space, office infrastructure, FM, utilities, dilapidations, business rates etc in a series of fixed payments. The main attraction for SMEs of this approach to space, office infrastructure and services procurement is the predictability of costs and, where their covenant strength is weaker than the serviced office operator, the ability to procure high quality premises. For larger corporate organisations, the key attraction may be speed of procurement.

From the serviced office perspective, changed work practices have a profound effect particularly on the serviced based venue-type products. They also influence the demand for flexible space (in terms of size, type, and contract length). The space also needs to be supported by an increasing range of services. These services have grown over the last ten years and there is little reason to expect a change in the foreseeable future.

The key attribute of the serviced office business model remains outsourcing. One of the key characteristics of outsourcing is the conversion of fixed into variable costs. In essence, the serviced office operator takes on the fixed costs and related risks associated with procuring and operating offices and transforming them into variable costs for businesses. The exposure of the serviced office operator to these risks varies with the model that is being used. However, the core serviced office model has involved absorbing risks.

From a risk management perspective, the serviced office operator can be analysed in terms of a provider of insurance against the short-term effects of both positive and negative 'shocks' to businesses' property requirements. Indeed, the failure of many serviced office operators illustrates the vulnerability of the sector when occupiers 'make claims' i.e. to exit the premises in business downturns. The spikes in profits discussed in previous research (that were being obtained at the peak of the office market cycle) reflected the combination of high operational gearing and office market cyclicity. Rather

than being a product of a supply/demand mismatch, they may simply have reflected a realistic level of required risk-adjusted return.

Clearly the serviced office sector has evolved and matured. Below, we report the results of an interview-based survey of corporate users of serviced offices. The objectives of the research are to assess how corporate users of serviced offices perceive the role and quality. In addition, we examine in detail the meetings and venues business stream.

Research Approach and Method

Given the exploratory nature of the research, it was considered that addressing the topic required an approach that drew upon discussion and conversation with participants, rather than more remote data collection using such tools as questionnaires. Our aim was to provide a rich, qualitative study rather than a quantitative analysis. Our approach was to investigate the perceptions, experiences and attitudes of key serviced office clients. Given that we did not have a deep understanding of many of the issues in advance, it was not possible to use a standardised research instrument that 'fitted' all of the serviced office users. Semi-structured interviews were conducted with 21 different organisations.

The interviewees were selected by drawing upon industry clients. The organisations represent a broad range of corporate organisations. An important issue is sample size. Not surprisingly, the literature on qualitative research suggests that sample size is a function of the point of theoretical saturation (see Strauss and Corbin, 1998). A key question is "how many interviews are enough?" This can be a function of the nature of the research problem and is itself variable (see Gubrium and Holstein, 2001). Consequently, there is also inherent researcher subjectivity since it is the researchers' judgement about whether new material is being obtained that is critical. Nevertheless, for in-depth interviews, the literature suggests that saturation is commonly achieved after approximately 6-12 interviews (see Gubrium and Holstein, 2001; Guest, Bunce and Johnson, 2006).

Results and Analysis

The Interviews

The interviews were conducted during October 2011. Since a number of the interviewees expressed a preference for a telephone interviews, broadly equal proportions of the interviews were conducted face-to-face and by telephone. There did not seem to be any substantive difference in tone and content between the two approaches to the interviews. Two researchers were present at most of the interviews. Both interviewers took notes of the responses. Consistent with the semi-structured approach, the interviews were informal and exploratory. Reinforcing the different drivers of the business strands, interviews with managers responsible for the procurement of venues and meetings space tended to be substantially different in terms of content.

The interviews began with discussions about the interview survey. All interviewees were assured that no comments or views would be attributable to them personally. It was indicated that we would like to acknowledge their contribution to the research by listing them in an appendix. Most, but not all, were happy to be listed. Respondents fell into two broad categories. The first were managers from real estate backgrounds who were responsible for the procurement of space and associated support services. The second were responsible for the procurement of off-site accommodation for meetings, training and other corporate events. They tended to be responsible for training or travel. All but one of the respondents worked for large corporate organisations and most had a global presence. In many cases, the sheer scale of their procurement and management of core, peripheral and transitory space was a feature of the interviews.

Rationale for Serviced Offices

Examining serviced offices from the corporate perspective provides several important insights. The first and most important is that the perception of those interviewed is that there are few disadvantages to occupying serviced office

space for a short term (i.e. months rather than years). Beyond this serviced offices are considered an expensive solution.

Turning to the survey, our first questions set out to explore the role of the serviced office sector in the organisation's real estate portfolio. A recurring, and unsurprising, message was that internal space was always the first preference⁴.

"We always look internally first"

This type of comment supports the notion that for the peripheral portfolio, when additional workspace is required this is normally acquired after checking that backward integration is not possible. If the operational portfolio and its services are able to accommodate the need in a cost effective manner, then self-provision is preferred. Therefore, the space and services selected within the serviced office sector will be those that are either not provided or can only be inefficiently provided by the clients themselves.

The responses regarding the rationales for using serviced offices broadly confirm existing research and knowledge on the importance of flexibility and speed.

"There is no fuss and no worry about infrastructure. It is quick, comprehensive and flexible. We are able to breathe in and out."

"Most of the time it's urgent, urgent. We want it – just do it.....It's about speed, flexibility and convenience. They can turn up, plug and play. It's easy."

"Flexibility is the key"

"We use serviced offices as quick-fix accommodation or if we are struggling to obtain space on the general market"

Another recurring theme was that large organisations used serviced offices for projects with an uncertain timeframe, particularly projects.

"It is purely for projects"

"We tend to use them during reorganisations or building moves"

⁴ All quotations on a topic are from separate respondents. The use of '.....' indicates that parts of the conversation have been omitted or not recorded.

"We use very little but always have a need...It is for projects. If we have a project and can't do it within existing space, the best solution is the serviced office sector"

However, it was also clear that serviced offices were felt to be suitable for accommodating operations that could be subject to rapid change and/or were short-term. A number of respondents mentioned various hurdle periods after which they felt that a conventional lease would be optimal – six months, 12 months, 18 months or 24 months. Interestingly, there was no consistency in their views of what this optimal period was. Reflecting the minority of responses, it was also commented that

"There's no set point that we operate to. It's horses for courses"

Speed of response is also critical. Several respondents commented that anything that causes a reduction in spontaneity detracts from the advantage of using serviced offices. Examples cited were that some serviced office operators lack transparency or contractual clarity. A particular case in point related to the inclusion of a rollover clause if a specific vacation date was missed. This was included within several pages of small print. If any of the lease or licence conditions are not transparent and result in the occupier carrying a void, then the advantage of the serviced office option diminishes.

Contractual complexity and "extra charges hidden in the small print" were also commented upon as increasing the time taken in negotiation. Contractual issues reduce the spontaneity advantage as the time taken from the business decision to occupation increases. Both points can be summarised by the comment that

"Transparency can be a problem with unexpected charges and notice terms"

In terms of the procurement of transitory space, it was interesting how many respondents felt that "booking" internal meeting rooms was problematic. In the majority of cases, the meetings were held in meeting areas in or semi-private areas within the foyers of their buildings. In all cases hospitality services were

provided. It was also interesting to note that in contrast with many of the desked areas all were busy. As many appropriately located hotel lobbies are also used for semi-private meetings and work, there is clearly a demand for such facilities. As such, 'space' is paid for via the hospitality services it forms part of a corporate transitory space portfolio. The fully serviced 'lobby' business has been growing and may represent an opportunity for serviced office operators.

When prompted about the risk management aspects of the serviced office product, it was clear that respondents did not seem to undertake in-depth analysis of risk issues.

"It's not significant. We wouldn't take serviced offices in the long-term and that's the only time you'd need to worry about the market shifting"

"We don't have too much concern with risk"

"Flexibility is much more important"

"We do not operate in that way"

Experience of Serviced Offices

The experience of all respondents from a real estate background regarding serviced offices was broadly positive.

"We use them on an ad-hoc basis. They're very good. They're very helpful."

"It's been a very good programme for being able to deal with and take on-board our requirements....We manage to settle into our accommodation very quickly"

"...very few disadvantages. You could say "costs" but again it's horses for courses. It can be very reasonable by the time you offset the costs of fit-out and dilapidations"

Whilst re-iterating that the tone of the discussions at this point was generally positive, a number of relatively minor problems were highlighted. They all tended to relate to the temporariness of the space.

"You know you're in a serviced office, you feel it's temporary"

Some respondents also identified the issue of branding as an issue.

"Everywhere you go it's [Deleted to preserve anonymity]. That branding is an issue for us"

There was a generally positive response to serviced office operators that did not promote their own brand aggressively within their serviced offices. However, one respondent who dealt with off-site venues felt frustrated by serviced office operators that did not promote their brand.

"I think they need a stronger branding. The majority of people would not have heard of it"

The Venues and Meetings Product

The rationale for using external suppliers of space for training, meetings and conferences was similar to serviced offices

"We have to go to external venues because we don't have suitable space"

"We use them when we don't have space internally"

In addition, another factor was conducting sensitive meetings where discretion was critical.

"We use them for conferences, for meetings, for training.....Proximity is a key issue, sometimes you need confidentiality"

"We use them for sensitive projects where there is a need for confidentiality"

As indicated above, for meetings, in particular, proximity to the core workplace was a critical variable. Perhaps not surprisingly, cost came up.

"It must be competitively priced. I can't stress that enough. Then it is location"

Overall, there was much less enthusiasm for serviced office operators as suppliers of venues and meeting rooms compared to workspace. Comments tended to focus on the quality of the buildings, the spaces and the catering.

"We haven't used them. I don't think that we have seen the quality. I don't think that we've seen the space that we want.....It's about size, layout, space, light and break-out areas.....We are looking for a service that's appropriate in a location that's appropriate"

"For us, it's about product. We've used one (serviced office) venue that wasn't up to scratch.....Serviced offices don't have onsite catering and are reliant on outside providers.....It's lots of small things. There is no general space, no big reception area."

"It's important to have break-out space. The hotels have the advantage of spacious reception, bars and lobbies. People need to go somewhere to relax, have a coffee and get away from work for a few minutes...we had a bad experience with (Serviced office operator- deleted). They charged us for boiling a kettle and for every sheet of paper."

"Segregation of the venues from the workspace is crucial. It can be intrusive for workspace users to have large groups in their building....Quality of catering is crucial. It sounds trivial but bad sandwiches can ruin an event"

"It's a product that's not one or the other"

A number of respondents mentioned tiers of providers. It was clear from discussions that serviced office operators were regarded as being in the second or third tier.

In terms of procurement, there was consistent evidence that there was little integration between the procurement procedures for workspace and off-site venues.

"In practical terms, it isn't worth me doing it. It's important for them to be physically close to their potential clients. Talking to the property person isn't important or critical"

"The real estate team are far too busy doing larger scale transactions to engage with meetings and venues"

"They wouldn't want to touch that area (venues).....They've got enough on the portfolio"

"In practical terms, it isn't worth me doing it (venues procurement)"

The majority of respondents had formal and informal relationships with intermediaries (e.g. Zibrant, Instant Offices) who were considered to be the "subject matter experts". One respondent stressed the importance of their supplier relationships and the importance of being well aligned. However, it was clear that they wanted "deep subject expertise" and did not feel that serviced office operators had this expertise in the venues sector.

Conclusions

Despite market and sector volatility, over the last decade the serviced office sector has matured to become an increasingly established sector of the UK's

commercial real estate market. It provides an essential product for many corporate organisations. However, the extent of market penetration remains unclear and, in the absence of consistent definitions, it is difficult to make meaningful international comparisons. Largely separate from the mainstream commercial real estate agents, a group of specialist market intermediaries have emerged. Further, the serviced office sector has been relatively nimble.

A range of operational models e.g. management fee, joint ventures and back-to-back leases have appeared. Each produces a different set of risk-return profiles and, consequently, some diversification benefits for serviced office operators. Nevertheless, the core operational model remains a risk arbitrage between the broadly fixed costs of leasing and/or buying office space with long-term horizons and the variable revenues associated with providing a fully managed workspace for comparatively (and sometimes extremely) short timescales.

A finding of this paper is that the serviced office providers are well placed to offer solutions to many of the challenges faced by corporate real estate managers. In particular, the core serviced workspace product is now recognised as providing the ability to rapidly acquire high-quality workspace on a flexible basis. Whilst it is arguably a beta product, the core workspace offer is now being augmented by managed office or back-to-back leases which enables clients to complement the advantages of serviced offices with a wider choice of premises. In addition, JV models are aligned with solutions to problems of surplus space.

Broadly confirming existing research, it was found that corporate organisations use serviced office space and services for a range of purposes. These range from aligning workforce change with portfolio change to transferring risk by adopting and paying for flexible space. They may be unwilling to accept long tenure commitments or may be restrained by the physical inflexibility of much freehold or leasehold space. They may use serviced office space for short-term project space, as temporary overflow space, to pilot a new location, to become familiar with a specific geographical marketplace or simply to gain an initial

presence in an area. Serviced offices are highly responsive in two ways. Firstly, the product delivery lead times are short. Second, the product is scalable.

It is interesting that the markets for workspace and meeting and venue space seem to be segmented. In addition to the fact that the products themselves are different, there are different competitors, different corporate buying centres and different intermediaries. One notable finding from the research was that serviced office operators do not have the same competitive advantage in the meetings and venues sector relative to the workspace sector.

In summary, this research, in focusing on how serviced offices in the UK fit into the evolving corporate real estate supply chain, reaffirmed a number of current and known trends. This work confirmed that the serviced office sector provides five main advantages. These are; portfolio and service flexibility, a shared cost capability, tenure and financial risk transfer, speed of reaction to a business demand and, finally, a form of outsourcing. Managed offices add two further advantages: a greater choice of building and the ability to gain identity by branding the building.

Arguably, serviced office operators are at the cutting edge of the commercial real estate sector. The ability of many of their clients to exit at short notice creates risks but also eliminates complacency. It will be interesting to see how the serviced office sector continues to evolve. This evolution will take place in an environment where agility and flexibility are likely to become increasingly important drivers of corporate real estate requirements. A final caveat is that it may also be a case of *plus ça change* - the penultimate sentence could have been written a decade ago.

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